

Investment Update June 2025



Investment Headlines & Comment

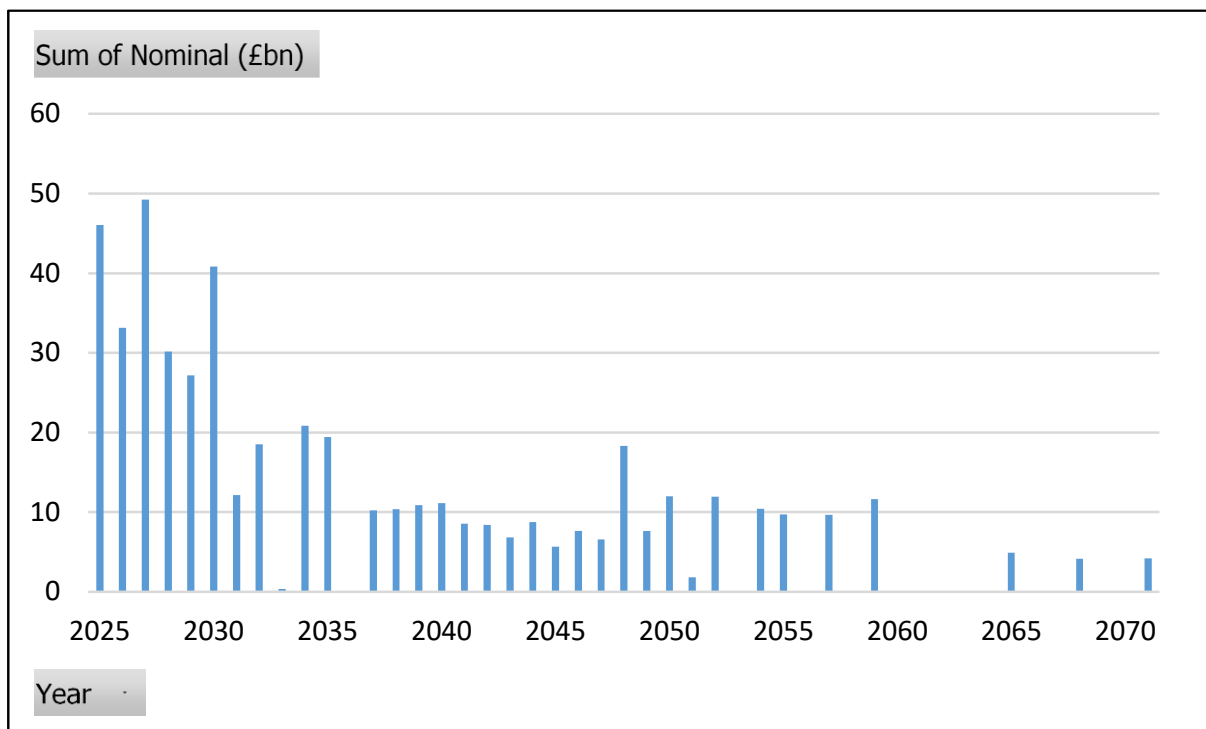
- A good month for Far East equities amidst tariff chaos.
- Sterling continued to strengthen against the US Dollar.
- Strong demand for the new 2038 index-linked gilt.

Feature Section

This month we revisit the process of unwinding Quantitative Easing (QE). We last looked at this in our [August 2022](#) edition, when there was £844bn of gilts to be dealt with, but as of the end of June 2025, this profile is down to £590m.

When the unwinding process started, it was expected that around £80bn a year would be released, and that approach has played out in practice. We therefore still have another seven or so years to get to the end of the process. Figure 1 shows the QE profile by tax years (note the date axis is for the start of the tax year).

Figure 1: QE profile



Source: Bank of England

Across the remainder of the current tax year and the next four tax years £186bn nominal reaches maturity, but some of this may well be released earlier as part of the controlled unwinding process.

It is interesting to note how the unwinding has been implemented across the different gilt issues. For example, since August 2022, the holdings maturing in the 2027 tax year have been reduced by a fifth, and for 2028 the reduction is by a sixth. This contrasts with the activity at longer maturities – for example, the exposures to those maturing in 2050 have halved, those for 2061 have virtually all been released already, and the 2071 set is down by two thirds.

This proportionally greater movement at the longer end of the market is probably a reflection of ongoing Liability Driven Investment (LDI) making for some more willing buyers looking to improve their matching.



Asset Returns and Financial Measures [in Sterling unless marked otherwise]

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and \$-based and unhedged-£-conversion hedge fund returns are excluded from that.

[NB: Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

Table 1: Investment Data to 30 June 2025

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	0.5	4.4	11.2	9.9	10.8	6.8	6.9
Overseas Equities	3.0	5.7	7.6	13.3	11.8	12.4	10.5
US Equities	3.4	5.0	7.5	15.3	14.1	15.2	8.2
Europe ex UK Equities	0.5	5.9	9.6	13.0	9.2	9.1	12.3
Japan Equities	0.3	4.9	6.3	10.7	6.8	7.9	6.8
Pacific ex Japan Equities	5.9	13.1	4.4	6.0	5.9	7.7	9.4
Emerging Markets	4.4	5.7	7.0	5.9	5.1	6.7	8.3
UK Long-dated Gilts	2.1	1.4	-4.3	-10.1	-12.9	-2.0	2.2
UK Long-dated Corp. Bonds	2.7	3.3	-0.1	-2.2	-6.9	0.8	3.3
UK Over 5 Yrs Index-Linked Gilts	3.1	0.7	-7.2	-10.0	-10.8	-1.3	3.1
High Yield (Global)	0.6	-1.3	3.2	6.3	3.1	6.4	7.8
Overseas Bonds	0.0	-2.2	-0.3	-2.8	-4.6	2.0	3.3
Property *	0.6	1.9	8.7	-3.0	4.0	4.8	5.3
Cash	0.3	1.1	4.8	4.4	2.7	1.6	2.0
Commodities £-converted	2.8	-8.5	-7.5	-4.3	15.3	2.9	-1.2
Hedge Funds original \$ basis *	2.2	0.8	5.9	5.9	8.5	5.0	5.3
Illustrative £-converted version *	1.3	-5.9	0.0	3.6	6.6	6.3	6.8
Euro relative to Sterling	1.8	2.4	1.0	-0.2	-1.2	1.9	1.2
US \$ relative to Sterling	-1.6	-5.8	-7.8	-3.9	-2.0	1.4	1.3
Japanese Yen relative to Sterling	-1.7	-2.5	2.7	-5.9	-7.6	-0.3	0.0
Sterling trade weighted	-0.2	1.2	3.2	3.0	2.5	-0.8	-0.8
Price Inflation (RPI) *	0.2	2.3	4.3	6.1	6.6	4.5	3.8
Price Inflation (CPI) *	0.1	1.8	3.4	4.6	5.0	3.3	2.9
Price Inflation (RPIX) *	0.2	2.3	4.1	5.4	6.2	4.4	3.8
Earnings Inflation **	-11.7	1.6	4.4	5.9	6.4	4.1	3.3
All Share Capital Growth	0.3	3.2	7.2	5.9	6.9	2.9	3.2
Dividend Growth	0.0	2.1	0.8	6.2	0.9	3.0	3.8
Earnings Growth	-0.4	-3.4	-3.9	2.7	5.2	2.4	3.0

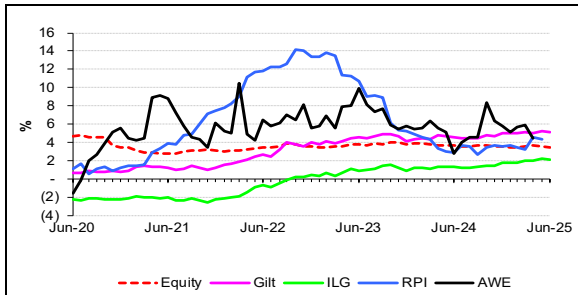
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- UK Equities (incl. dividends and earnings) – FT-A All Share.
- Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices
- Emerging Markets from MSCI US \$ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.
- UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)
- UK Corporate Bonds – iBoxx Non-Gilt **Over 15 Year** index (all credit ratings combined)
- High Yield – ICE Global, £ Unhedged
- Overseas Bonds – JP Morgan Traded Unhedged World ex UK
- Property – MSCI IPD UK Monthly Property Index
- Commodities – GSCI Total Return, converted to UK £ by J&A
- Hedge Funds Composite – HFRI US \$ based total return index plus converted to UK £ by J&A. **NB A smooth “cash + x%” return will only be shown in the base ‘hedged’ currency, here the US \$.**
- Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, and SONIA since March 2021, calculated internally by J&A
- Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)
- Currency data – London close, from the Financial Times
- * denotes data lagged by 1 month, ** by 2 months – these reflect the later publication dates of these data items.

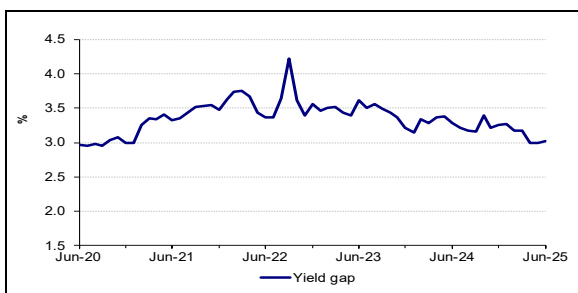


Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

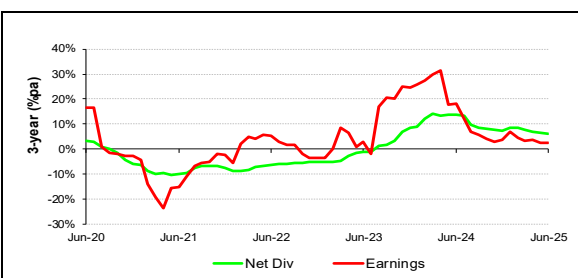
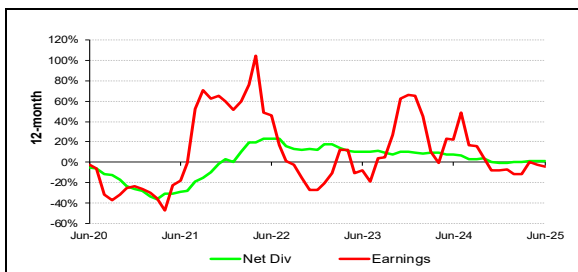


The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [NB the charts have different scales]

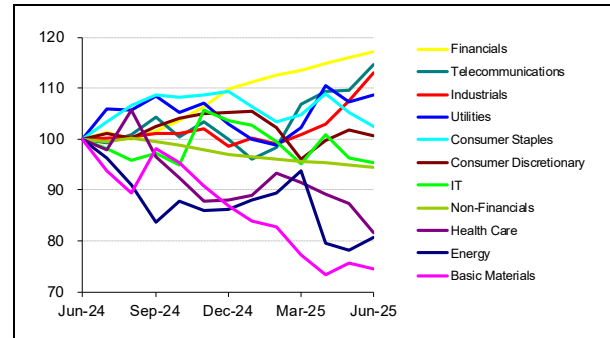
Figure 3: Dividend & Earnings Growth



Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



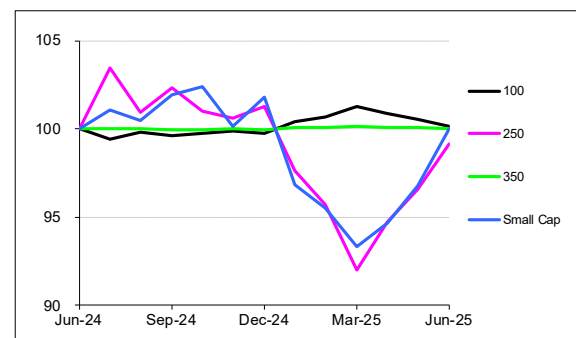
Note: Sector labels for relative lines are in end-value order

There was a small fall this month in the rolling 12-month sector dispersion (down from 44% to 43%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	3.6	-10.2	-10.3
Basic Materials	-1.1	0.8	-17.2
Industrials	5.7	17.0	25.7
Consumer Staples	-2.0	2.1	13.9
Health Care	-6.1	-6.7	-9.2
Consumer Discretionary	-0.7	9.5	11.9
Telecommunications	5.1	11.9	27.4
Utilities	1.8	10.9	20.7
Non-Finan	0.1	3.1	5.1
Financials	1.4	7.8	30.3
IT	-0.5	4.6	6.1
All Share	0.5	4.4	11.2

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both rose relative to the All Share.

Sources for charts on this page:

Financial Times, Office for National Statistics, J&A



Bond market information

Figure 5: £ Non-Gilt Credit Margins

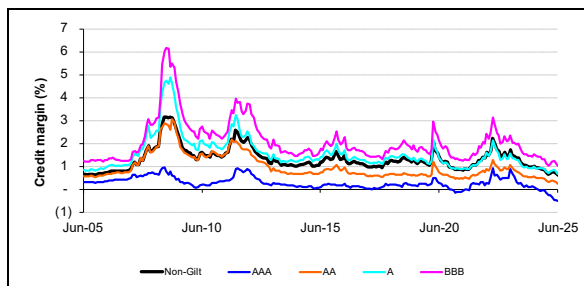


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Jan '25	5.33	5.00	0.33
Feb '25	5.33	4.94	0.39
Mar '25	5.66	5.14	0.52
Apr '25	5.57	5.03	0.54
May '25	5.70	5.22	0.48
Jun '25	5.53	5.10	0.43

Tables 2b, 2c: £ Market Size (£bn) and Maturity

Category	Mkt Val (£bn @ Jun 25 & 22, 19)			Weight (%)
Gilts (63)	1,603	1,545	1,375	73.7
Non-Gilts (1,239)	571	585	606	26.3
AAA (145)	119	127	124	5.5
AA (161)	70	78	87	3.2
A (432)	173	156	164	8.0
BBB (501)	209	225	230	9.6

Category	Mkt Val (£bn @ Jun 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (63)	1,603	1,545	73.7	8.6
< 5 Yrs (15)	505	411	23.2	2.6
5-15 Yrs (20)	616	500	28.3	7.7
> 15 Yrs (28)	482	634	22.2	16.0
Non-Gilts (1,239)	571	585	26.3	5.4
< 5 Yrs (593)	308	253	14.2	2.6
5-15 Yrs (440)	188	224	8.6	7.0
> 15 Yrs (206)	75	108	3.4	13.0

Tables 2d, 2e: € Market Size and Maturity (Jun 25)

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (533)	7,898	56.1
Non-Sovereigns	6,179	43.9
AAA (1,398)	2,166	15.4
AA (853)	1,055	7.5
A (1,671)	1,378	9.8
BBB (2,183)	1,580	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,904)	3,472	24.7
3 – 5 Yrs (1,746)	3,147	22.4
5 – 7 Yrs (1,194)	2,155	15.3
7 – 10 Yrs (1,002)	2,417	17.2
10+ Yrs (792)	2,885	20.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jun 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (35)	544	689	100.0	14.0
< 5 Yrs (4)	102	93	18.7	2.5
5 – 15 Yrs (12)	219	207	40.3	9.4
> 15 Yrs (19)	223	389	41.0	23.8

Table 2g: High Yield bond yields (BB-B indices)

Month End	US (%)	Euro (%)	Sterling (%)
Mar '25	7.16	5.27	7.77
Apr '25	7.31	5.28	7.99
May '25	7.04	5.05	7.85
Jun '25	6.67	5.06	7.91

Sources: DMO, FTSE, iBoxx, ICE, J&A

£ Gilt Market “main” & “Green” Issuance

- £5.93bn, 4³/₈% 2028 (3.08x, 4.06%, 25%, Apr '25)
- £5.63bn, 4³/₈% 2030 (3.26x, 4.06%, 25%, May '25)
- £4.25bn, 4¹/₂% 2035 (2.89x, 4.59%, 0%, May '25)
- £1.74bn, 1¹/₈% IL 2035 (3.02x, 1.39%, 2%, Apr '25)
- £5.50bn, 1³/₄% IL 2038 (**11.1x**, 1.74%, n/a, new)
- £3.25bn, 4³/₈% 2040 (2.88x, 4.85%, 0%, Apr '25)
- £1.00bn, 4¹/₄% 2046 (1.99x, 5.16%, n/a, Jun '16)
- £1.42bn, 4% 2063 (3.51x, 5.28%, 14%, Feb '25)

Note: Issuance amounts are nominals. The second % figure in each row is the yield or real yield. The third % figure is the additional amount taken up under the Post Auction Option Facility (PAOF), as a % of the amount of the issue. No PAOF applies for Green Gilt (Gr), tender or syndication cases.

